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ABSTRACT

Designed to assist established businesspeople with the development of a loan proposal, this workbook offers information on sources of financing and step-by-step guidance on applying for a loan. After chapter I discusses borrowers' and lenders' attitudes towards money, chapter II offers suggestions for determining financial needs. Chapter III lists a variety of possible sources of funding, including relatives and friends, venture capital companies, personal assets, insurance policies, credit unions, suppliers and customers, factoring companies, banks, savings and loan associations, the Small Business Administration, certified development companies, and leasing companies. Chapter IV presents a sample loan proposal and worksheets corresponding to the following proposal sections: application, guarantee, purpose, repayment, collateral, financial data, comments regarding financial data and forecast, financial data guarantor, comments regarding financial data guarantor, history and operations, and conclusion. Chapter V offers suggestions on making the loan presentation, including guidance on determining who will make the presentation, finding the appropriate lending institution and loan officer, preparing and rehearsing, and making the presentation. Chapter VI presents concluding comments. (UCM)

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A Workbook for Financing Small Business

Clark W. Compton

Edited by
DaleAnn Compton
and
Wendell F. Anderson

Preface

This workbook has been prepared for the **Oregon Small Business Development Center Network** to assist established small business owners with the development of a loan proposal.

For new businesses and for businesses that do not have a business plan, I recommend reading *Your Business Plan: A Workbook for Small Business in Oregon* before attempting to complete this workbook.

Since the suggested loan format included in this workbook is intended to be comprehensive in order to assist as many different companies as possible, you may find some sections too complicated or detailed for your particular company.

Clark Compton Biography

Clark Compton was born in 1943 and grew up in Montana. In 1966 he graduated from the University of Denver. After serving four years as an officer in the Navy, Mr. Compton moved to Eugene, Oregon where he worked in banking for many years. During those years he graduated with honors from the Pacific Coast Banking School. From 1977 to 1983 he was president of Bank of the Northwest. He now heads up his own business, Compton Consulting, which specializes in financial and management consulting. In addition to his business, Mr. Compton serves on the executive council of the Boy Scouts of America, the Development Fund Board of Trustees for Lane Community College, the Board of Directors of Pacific Hospital Association, and the vestry of St. Thomas Episcopal Church. He is also a member of Rotary and has served in the past on the boards of several other non-profit organizations. He resides in Eugene with his wife and two children.

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Introduction

Without essential financing, Henry Ford would have stayed in his small machine shop; McDonald's would have remained a small hamburger stand; Apple Computer might long ago have been swallowed up by IBM. Whether they choose to grow large or stay small, all businesses need proper financing to survive. Financing is a critical tool in the overall success of a company. Individuals and companies that use this tool effectively are more likely to realize their dreams of growth and prosperity. Those that don't, may suffer unnecessary frustration and, sometimes, business failure.

To obtain the necessary loans, a company must have a well-planned and realistic approach toward financing. In addition, the people involved with obtaining financing must have a clear understanding of their attitudes toward money in order to ensure that financing is handled in an objective manner. The emotional aspects of money can interfere with the mechanics of obtaining a loan.

The goal of this workbook is to teach people to accomplish the following:

1. Determine the amount of borrowing that is realistic for their company.

2. Determine which financing source can best provide the funding.

3. Determine the amount of money that a lending institution will lend to the company.

4. Complete a written loan proposal.

5. Present a loan proposal to a lending institution.

Chapter I
Attitudes Toward Money

Before attempting to obtain loans for your company, you need to understand some misconceptions about money, and borrowing it. You also need to understand the problems that face the loan officer with whom you work. This chapter will alert you to some commonly expressed bad borrower attitudes. It will allow you to see the loan application process from the lender's point of view.

Borrower's Attitude

Money is usually thought of as a medium of exchange, a means of payment, a measure of value. As we all know, it is much more than that. Money, for example, is frequently used as a way to measure our success or failure as a human being. We often judge ourselves and others in terms of the bottom line on a financial statement. It is important, therefore, to understand your attitude toward money before you make a loan request. Your attitude can interfere with an otherwise successful loan application. Your first step toward financial objectivity is to separate yourself from your loan request.

The following are examples of attitudes that can cause problems when borrowing money:

1. I always pay my bills and always will, so the bank has no right to turn me down.
2. Banks lend money only to people and companies that don't need it.
3. If the loan officer turns down my request for a loan, it means that he doesn't like me as an individual.
4. If I am turned down on a loan, I will never do business with that bank again.
5. I never want to owe anyone anything.
6. It's nobody's business what I do with my money.
7. I will not show a banker my financial information because it is none of her business.
8. Nobody can predict the future. I won't make forecasts regarding my company's activity, because they probably won't come true.
9. No bank would be crazy enough to lend me money.
10. I will tell the bank anything to get the loan. When I have the money, I have accomplished my goal.
11. Bankers are dummies. If they could do anything else, they would not be in banking.
12. Bankers know everything.
13. I can't stand being turned down, and will do anything to prevent that from happening.
14. I won't guarantee the debt because I don't want to expose my personal assets.

Some of these attitudes might appear humorous, but at one time or another you have expressed at least one of them. Furthermore, bankers have seen them all. We will address each of these attitudes and see why they cause problems in obtaining a loan.

1. **I always pay my bills.** You are saying that you are honest and will do your best to pay the loan. However, even an honest person can't pay back a loan if there is no money. Many people who have taken consumer loans have this attitude. A business loan is different. It is often for a greater sum than any individual could ever repay. The **business** must be relied upon to pay the loan. If the **business** cannot generate the funds to pay the loan, the bank may not get its money, even if the people who own the business are honest and have always paid their bills. It is not enough to have always paid your bills. You must also show the bank how the **business** is going to repay its bill: the bank loan. In order to break even, a bank must make 97 good loans to make up for **one** bad loan.
2. **Banks lend only to people who don't need the money.** Bankers hear this more than any other negative statement when they deny a loan request. Few loans would be made if banks were so restrictive. Banks are in the business of making loans, good ones, which are paid back. People who do not need loans usually do not borrow money. Your job is to convince the banker that your business is one that can and will pay back its loan. *Business Week* reports

that there were $253.7 billion in business loans made by banks as of April 1985. Is it possible, or even probable, that businesses that don't need money would borrow so much?

3. **A turned down loan indicates personal dislike.** If a bank doesn't make a particular loan, it means that the bank doesn't believe there is a reasonable chance the loan will be repaid. Taking this as a personal insult is a mistake. It confirms in the banker's mind that you may not have the objectivity to run a business. Don't let your personal fear of rejection stand in the way of your company obtaining proper financing.

4. **Turn me down and I will never do business with you again.** Same song, second verse.

5. **I never want to owe anyone anything.** Money is a tool to help your business reach its goals. Not borrowing money when it is needed and can be safely paid back is as bad as borrowing too much money that can't be repaid. Sometimes it's good to be financially conservative, but sometimes borrowing funds can help your company.

6. **It's nobody's business what I do with my money.** Banks need to know what you are doing with your money to evaluate the likelihood of it being repaid. Your banker can be trusted with your personal and business financial information. If you feel this is not true, get a new banker. But don't withhold information that the banker needs to properly analyze your loan request.

7. **I will not show my financial information to the banker.** This attitude is sometimes found in older, more established businesses. The owners may feel the company has proven itself and does not need such intrusions of privacy. But, don't let this become a part of your thinking. A banker can't do the best job for you and your company if he doesn't have the analytical tools. Choose a banker you trust, then share all of your financial information.

8. **I can't predict the future.** No one can predict the future with certainty. But if you are unwilling or unable to make an educated guess about the future of your company, you can't expect a bank to lend money that is to be paid back in the uncertain future. Prepare appropriate forecasts and share them with your banker. If your forecast is wrong, don't worry. Your forecasting will get better with practice.

9. **No bank will lend me money.** You'll never know unless you ask. If you don't have confidence in your company and your loan request, it will be difficult for the bank to have confidence in them or you.

10. **Tell the bank anything to get the loan.** The goal of any loan request is to obtain the loan. But, getting the loan is only the first step in the development of the proper financial support for your company. After securing the loan, you begin developing a good long term banking relationship. You do this by being truthful with the bank and by performing on all your loans and commitments.

11. **Bankers are dummies.** Banking is an excellent career. It attracts intelligent, well-educated, and highly skilled people. Don't underestimate them. Your banker is a qualified professional who can be of great assistance to your company. If you have a banker who proves to be incompetent, find another one. There are plenty of good ones.

12. **Bankers know everything.** Some people regard the banker with awe. They think their banker holds the future of their company in the palm of her hand. It's true that a good banker can make a difference in a company's success; but a banker is not all-knowing and all-powerful. To view your banker that way will prevent open and clear communication. Bankers are in the business of making good loans. They are not superior beings who must be treated with great deference.

13. **I can't stand to be turned down for a loan.** A loan rejection is nothing more than one person's assessment of the risk involved in a particular loan. It is not a rejection of your worth as a human being. The inability to face up to a loan denial manifests itself in one of two ways: It either prevents the person from ever making a reasonable loan request, or it reduces the effectiveness of the request that is made. If you tell a banker you are merely providing an "update" on your company, and this "update" turns into an indirect loan request, you are suffering from this attitude. "Would you lend me this money if I requested it?" or "How does your bank look at a particular loan?" are really disguised loan

requests. Instead of clearly explaining your financing needs, you are hiding them behind a veil of hints and ineffectual probes. Bankers have had conversations with borrowers where they were not sure that a loan request had ever been made. Such evasiveness diminishes your chance of achieving your goal of proper financing.

14. **I refuse to guarantee the debt of my company.** If you don't believe in your company, why should anyone else? By personally guaranteeing the debts of your company, you are saying that you believe in your company enough to risk all or part of your personal assets. Only the largest and most substantial companies borrow money without personal guarantees. Don't ask for this concession, however, because it will undermine your chance of obtaining the loan. If you don't have the confidence to guarantee the debt, you should not be borrowing the money.

Lender's Attitude

A loan officer is in the business of making good loans, which are paid back and profitable for the bank. This should create a situation conducive to granting a loan request. Unfortunately, this is not always the case. There are other considerations that sometimes affect a banker's judgment.

If a loan officer turns down a loan request, the work stops. If the banker makes a loan, a lengthy process begins in which his reputation, judgment, and, perhaps, his job will be put on the line. The loan officer must:

1. Review closely the loan request, prepare a write-up for a loan committee or loan supervisor, and support the loan request under close questioning from peers and superiors.

2. Prepare the loan documentation necessary to make the loan.

3. Make the loan.

4. Make the proper reports on the loan.

5. Ensure that the proper follow-up measures are taken after the loan is made.

6. Follow the loan and take whatever collection action might be necessary.

7. Explain and defend the loan if any problems develop.

A loan officer who doesn't make loans will not remain a loan officer for long. It is much easier, and often safer, to simply turn down a loan. A good loan proposal must overcome this bias.

Attitudes toward borrowing and lending affect the success a company has in obtaining proper financing. Your challenge is to recognize and overcome your negative attitudes and misconceptions about money and borrowing. Then, with a good loan proposal, you can overcome any negative bias in the banking system.

Chapter II
Determining Financing Needs

A problem that confronts new and established companies alike is to determine their true financial needs. It is easy to say that the more money a company has the better. Obviously, a good company can fail if it has inadequate funds. But a good company can also run into trouble if it has too much financing. The key is to find the level that will ensure proper operations without imposing too high a strain on debt repayment. You must determine how much is needed for your company to succeed.

Some people make the mistake of ascertaining how much money is available, then justify that amount with what is needed to start or run the company. You will avoid that trap if you follow the steps listed below. The forms required to complete some of these steps can be found in the publication, *Your Business Plan,* available through the Oregon Small Business Development Center Network. Before completing these steps, read pages 33 through 53 of that workbook. I will refer to the page number that applies to each step.

1. Complete a sales forecast, cost of goods sold estimate, and an operating expense forecast for the first year. (Use pages 35-41 of *Your Business Plan.*)

2. List all equipment that the company needs to purchase in order to operate sufficiently. (Use pages 42 and 43 of *Your Business Plan.*)

3. List all start up expenses. This should be done for new businesses and for existing businesses that are expanding. (Use page 45 of *Your Business Plan.*)

4. Prepare a projected income statement for the first, second, and third years. (Use pages 46-49 of *Your Business Plan.*)

5. Convert the projected income statement, start-up expenses, and equipment purchases to a cash flow statement similar to that found on pages 51 and 53 of *Your Business Plan.* However, do not include any amount for "Loans from Banks, Etc." or for "Loan Principal Repayment."

The cash flow statement becomes the document that will tell you how much money you need to operate the company. An example for one year can be found on page 10 of this workbook. Turn to page 10 and go over the statement before you continue with this workbook.

As you can see, the company has a negative ending cash balance for every quarter of the year. The negative balance reaches a high of ⟨$80,575⟩ in the first quarter and a low of ⟨$56,300⟩ by the fourth quarter.

In this example, the company will need at least $80,575 in total funds at the start of the year or there will be a cash flow problem that could cause the company to fail, no matter how profitable it is. Funding of $100,000 from the various sources would be a logical goal in order to cover any errors in the forecast.

In an actual situation, a company would want to complete the cash flow forecast for at least three years to ensure that there are no hidden cash flow problems beyond the first year.

After you have obtained the funding to cover the cash shortfall, insert it into the cash flow forecast for the actual cash flow projection that can be used to monitor the company.

If you are unable to complete this section, you should contact an accountant or a counselor from your local small business development center, who can assist you in determining the amount of funds that are required to operate your company. This information is vital to the success of your company.

When you have determined how much money your company needs to operate, decide how this money will be obtained. The next chapter deals with available sources. In most new companies, without enough financial history to prove their ability to repay loans, it is difficult to borrow from traditional sources. Whatever the source, you will be able to borrow only the amount that you can satisfactorily demonstrate an ability to repay and for which you can provide adequate collateral to protect the lender. Previous years' financial information plus the projected income statements and projected cash flow statements, which you have already completed, will help you to obtain financing. In general, lending institutions are willing to lend an amount that can be repaid by the income and cash flow of the company, if the quick sale value of the collateral does not exceed 60 to 80 percent of the loan. There will be more discussion on reasonable loan amounts in the chapters on Sources of Financing and Loan Proposals.

Projected Cash Flow
Year One (By Quarters)

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year To Date
Beginning Cash Balance	0	⟨80,575⟩	⟨69,150⟩	⟨57,725⟩	0
Cash Receipts					
Cash Sales	15,000	45,000	45,000	45,000	150,000
Collect Account/Receivables	25,000	75,000	75,000	75,000	250,000
Total Cash Receipts	40,000	120,000	120,000	120,000	400,000
Cash Disbursements					
Purchases (Merchandise)	50,000	80,000	80,000	90,000	300,000
Salaries	13,000	13,000	13,000	13,000	52,000
Payroll Taxes/Fringe Benefit	1,950	1,950	1,950	1,950	7,800
Rent	6,000	6,000	6,000	6,000	24,000
Utilities	625	625	625	625	2,500
Interest	0	0	0	0	0
Other: Supplies	2,000	1,000	1,000	1,000	5,000
Other: Start-Up Costs	9,000	0	0	0	9,000
Purchase Capital Equipment	32,000	0	0	0	32,000
Owner's Withdrawals	6,000	6,000	6,000	6,000	24,000
Total Cash Disbursed	120,575	108,575	108,575	118,575	456,300
Ending Cash Balance	⟨80,575⟩	⟨69,150⟩	⟨57,725⟩	⟨56,300⟩	⟨56,300⟩

Chapter III
Sources of Financing

According to legend, when the notorious Willie Sutton was asked why he robbed banks, he replied, "Because that's where the money is." I'm not suggesting you should take up bank robbery to satisfy your financial needs; but now that you understand what attitudes to avoid, you need to find your source of funds.

Different lending institutions finance different types of loans. To pick a lending institution at random, without determining if it has money for your type of loan request, is a waste of time. Like Willie, you must go where the money is. Once you have found an appropriate source, keep in mind that no lender will agree to a loan if it perceives the risk to be too high. But don't become discouraged. They are not the only source of funds available. For most new or young companies, financing must come from more ingenious sources than lending institutions.

There are two types of funds that a company can obtain: equity and borrowed money.

Equity

Equity is money invested into the company as a part of the ownership of that company. Normally, it has no provision for repayment to the investor, except through a share of income or through the liquidation of the company. Equity can be an important source of funding. But, before you allow anyone to obtain equity ownership in your company, be sure you understand what they are acquiring and what you are giving up.

Relatives and Friends. Of all the sources of financing, this is undoubtedly the most easily obtained and the most abused. Much more that money is involved. Long-standing friendships have been ruined, family ties severed when these kinds of loans have not been repaid, or when misunderstandings developed. To avoid possible problems, you should employ the same business practices you would in borrowing money from a financial institution, including signing a note, making regular payments, paying a fair rate of interest, and offering proper collateral. You should borrow only the money that you are sure you can repay. And you should evaluate the effects that the borrowing will have on the relationship if the money is paid back or not paid back.

Venture Capital Companies. Venture capital firms seek companies in which they can invest capital and provide management expertise. They generally become involved with a young company for up to five years, make an excellent return on their money, then remove themselves. Since they receive a higher return when a new company succeeds, they are able to take more risk. Venture capital firms are a good source of funding for a company that cannot obtain funds from a lending institution or does not have the immediate ability to repay a loan.

Borrowed Money

Whenever people speak of borrowing money, they usually think of banks. But banks aren't the only source of financing for new or young companies.

Personal Assets. Most people have accumulated some equity in personal assets, such as homes and vehicles. Even though a new company cannot demonstrate the ability to pay back a loan, the owners may have enough personal income and a high enough credit rating to borrow money as a consumer, then invest it into the new company. Second mortgages on homes are a particularly good source of funds, because the money can be borrowed for an extended length of time at a reasonable interest rate. Another way to obtain funds from personal assets is to sell them. This offers the advantage of not having to repay a loan from the early years of a business. People starting a new business or trying to finance a young company should look at their personal assets with an eye toward selling them to generate the funds needed. These funds may make the difference between success and failure.

Insurance Policies. Most permanent life insurance policies have a cash surrender value. This is the amount of money that the insurance company will pay the policyholder for a policy turned into the company. This can be a source of funds in one of two ways: You can cash the policy in and receive the refund due you, or you can borrow an amount up to the cash surrender value of the policy. These loans are normally made at a favorable rate.

Credit Unions. Many small businesses get early financing from a credit union. A credit union

usually uses personal assets as collateral. If you belong to a credit union, do not overlook this possible source of financing.

Suppliers and Customers. Many new companies overlook what may be their best or sometimes only source of financing. If a company can persuade its suppliers to sell it inventory on delayed billing, it has borrowed money for a short term. If a company can persuade one of its customers to make an advanced deposit before work is done or a product produced, it has borrowed money. By using these two methods of financing its operation, a company can sometimes greatly improve its working capital position.

Factoring Companies. There are financing companies that will factor (purchase) a company's accounts receivable. Factoring provides immediate cash. Factoring companies are not concerned with the creditworthiness of the company, but with the strength of the receivables. If a company sells its product to established companies with a good credit history, the receivables can be sold to produce working capital.

Once a company has established a good operating history, it can start to use the more traditional sources of financing, such as those listed below.

Banks. Banks lend primarily for short term needs. They specialize in providing working capital and in financing equipment. Some also provide real estate financing.

Savings and Loan Associations. These institutions primarily make loans secured by real estate. Some savings and loan associations make short term commercial loans.

U.S. Small Business Administration (SBA). An agency of the federal government, the SBA generally makes long term loans that are paid back over a period of years. However, they also offer short term loans to certain types of firms, such as construction companies.

The SBA has two basic financing programs: The **participation program** and the **direct program.** In the first program, the SBA guarantees up to 90 percent of a loan that has been made by a lending institution. In the second program, the SBA actually lends the money. Your local SBA office can give you more information on both programs.

Generally, the SBA does not have much money for its direct program. Your company will not be able to obtain this type of funding unless you and your company fit into certain special categories, which the SBA is presently funding. Before you spend time trying to obtain a direct SBA loan, contact the SBA office, describe your situation, and ask if there are any funds available for your type of loan.

The bulk of SBA loan activity takes place through the participation program. Many institutions participate in this program. Your challenge will be to find the lending institutions in your area that are involved in the SBA participation loan program. Once you find the appropriate lending institution, you will need to convince them to proceed in getting an SBA guarantee for your loan. Prepare and submit the same loan proposal described in Chapter IV. Once the lender agrees to submit your loan request to the SBA for approval, you will be asked to fill out the required SBA forms.

The SBA's goal is to provide funds and guarantees to assist small deserving companies that provide employment. The program has been valuable to a large number of small companies that would have not been otherwise able to secure a loan. Many large companies in Oregon, when they were smaller, can trace their success to critical SBA financing.

Certified Development Companies. These companies provide financing through the SBA 503 Program. The 503 Program finances new construction through a combination of lending institution loans and SBA guarantees. A lending institution makes a loan secured by a first mortgage. The certified development company then obtains an SBA guarantee for up to 100 percent of a debenture secured by a second mortgage on the property. The debentures are fixed rate debt instruments that have a 15-, 20-, or 25-year maturity. If you are considering a new construction project, contact your local SBA office. They will direct you to the nearest certified development company, which will provide you with details on the 503 Program.

Leasing Companies. Leasing companies allow a new company to obtain equipment with a smaller cash payment. They also can provide the money at a lower rate, if the company does not need the tax shelters that accompany the purchase of equipment.

Local Governments. In recent years, local governments have become an important source of funding. There is a wide variety of programs available. Normally, they are used by local governments for economic development. To get information about loan programs in your area, contact city and county governments. Many local governments have a business development department that handles loan requests. The small business development center in your area has information on whom to contact for these loans. As long as economic diversification and growth are considered important goals, most communities will offer local loan programs.

State Governments. Many state governments also have loan programs. Three loan programs through the Oregon Economic Development Department are typical of ways state governments offer financing to small businesses.

1. **Oregon Business Development Fund.** These loans, made directly by the state, are used to finance the purchase of fixed assets. A loan can be for a maximum of $250,000, as long as it does not exceed 40 percent of the cost of the fixed assets being financed. Furthermore, a lending institution must be willing to provide a portion of the financing. Contact the Oregon Economic Development Department for more information about this program.

2. **Self Standing Industrial Revenue Bonds.** These bonds must be for at least $850,000. The borrower must find a lending institution interested in purchasing the bonds. After finding the lending institution, the borrower can use the bonds to finance land and depreciable assets. The state does not provide the money or take any risk. The state provides a favorable tax treatment, which allows the bonds to be issued at a lower interest rate. However, the front end cost for obtaining the bonds is high and the process is complicated. If you are interested in this program, contact a local bank for more details.

3. **Umbrella Revenue Bonds.** This program was created to allow small businesses access to Industrial Revenue Bonds. The qualifications are the same as for the Self Standing Industrial Revenue Bonds, with two exceptions: The maximum amount of the loan is $1,000,000; a bank must participate with the state. The state combines several loans and obtains a bond to cover the funding requirements. For more information on this program, contact the Oregon Economic Development Department.

Other loan programs sponsored by state and local governments include energy and remodeling loans. For details, contact the agency providing the funds.

There are other sources of financing that may be unique to your industry or area. Many small businesses have started without traditional financing. Instead, they took advantage of various sources to provide the funds necessary to make the business successful. By seeking out all the available sources, you can ensure that your company receives the best possible funding.

Chapter IV
Preparing a Loan Proposal

This chapter presents the practical information needed to properly complete a loan proposal. Section 1 is a sample loan proposal. Section 2 is a description of each portion of the proposal and a worksheet for completing your own loan proposal. Read the sample loan proposal. Don't worry if you don't understand some portions. Go on to the detailed description of a loan proposal, then start filling out your own loan proposal on the worksheets. Fill in only those sections that apply to your company and situation. Do not include anything you don't understand. Seek help for the parts you don't understand.

(Sample)

Loan Proposal

Submitted by
ABC Company
555-2761

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(Sample)

LP-1

ABC Company

Insulated Glass Manufacturer

1. Application:
   1. $75,000 secured short term operating line to March 31, 1987.
   2. $20,000 secured long term loan to March 31, 1989 payable $683.55 monthly including interest at 14%.
2. Guarantee: Matthew and Sarah Smith will personally guarantee the debts of ABC Company.
3. Purpose:
   1. To provide working capital.
   2. To purchase equipment.
4. Repayment:
   1. From collection of accounts receivable and sale of inventory.
   2. From income and depreciation.

Description	1983	1984	Estimated 1985	Estimated 1986
Income	$30,000	($16,000)	$45,000	$59,000
Depreciation	3,000	3,000	4,000	4,000
Total amt. available to service debt	$33,000	($13,000)	$49,000	$63,000
Present debt service	9,000	10,000	12,000	12,000
Margin	$24,000	$23,000	$37,000	$51,000
New debt payments			8,203	8,203
Margin			$28,797	$42,797

5. Collateral:
   1. The lending institution will be provided a security interest in all accounts receivable and all inventory owned by ABC Company. As of 12-31-85 the company had $83,000 in accounts receivable. All but $2,800 of these receivables were less than 90 days old. The inventory as of 12-31-85 totaled $46,000. The lending institution will be provided with collateral totalling $129,000 as of 12-31-85. The lending institution can limit its total loans to 80% of receivables and 50% on inventory.
   2. The lending institution will be provided a security interest in a glass delivery truck that has a purchase price of $27,000.
6. Financial Data: The financial statements for ABC Company are prepared by Jones, Jones and Jones, C.P.A.'s. A three-year spread of these statements has been attached to this proposal.
7. Comments Regarding Financial Data: **Accounts Receivable of $83,000** increased 113% in 1985. Most of this increase was the result of increased sales. In addition, receivables were not collected as fast in 1985, which resulted in their turning every 60.59 days in 1985, as compared to every 51.76 days the previous year. The following is an aging of accounts receivable as of 12-31-85:

Current	30 days	60 days	90 days	Total
26,000	34,000	20,200	2,800	83,000

(Sample)

LP-2

Inventory of $46,000 increased $20,000 during 1985. This increase was the result of increased sales. Inventory was 20% of assets in 1985, as compared to 21% in 1984. Inventory turned every 64 days in 1985 and every 50 days in 1984. Nineteen eighty-four was unusual in that the inventory dropped somewhat at year end, which distorted the number of turns. The company normally turns its inventory in the 65-day range. This illustrates that the inventory is under good control.

Real Estate: $27,000. The company purchased a commercial lot in the industrial area. It is the intention of the company to some day erect a building and move to that location.

Notes Receivable: $18,000. The company had to convert a past due receivable to a note receivable. The note receivable is well collateralized, but it is not scheduled to be paid for two more years. The company is receiving monthly interest payments, and these payments are current.

Note Payable: $22,000. This represents money that has been lent the company by Sarah Smith's mother. This money is due August 1986.

Accounts Payable of $68,000 increased $27,000 during 1985. This 66% increase was lower than the 82% sales increase. Payable were more than 33% of total assets in 1984, and have decreased to 30% in 1985.

Long Term Debt of $37,500 consists of the following:

Lender	Amount	Collateral
Uptown Bank	21,500	Equipment
Land Sales Contract	19,000	Real Estate
Out of Town Finance	9,000	Automobiles
Total Debt	49,000	
Less Current Portion	12,000	
Long Term Portion Debt	37,500	

Capital of $57,000 increased substantially in 1985 because of the excellent profits. The following shows the changes:

Beginning Capital 1-1-85	12,000
Plus: Net Income	45,000
Ending Capital 12-31-85	57,000

Sales of $500,000 increased 82% in 1985 from $275,000 the previous year. This excellent increase was the result of a marketing effort that increased the number of accounts by 26%. The company also increased the amount of sales to existing customers. It is expected that sales will continue to increase. (See the attached income projection.)

(Sample)

LP-3

Cost of Goods Sold at $262,000 decreased from 68.73% of sales in 1984 to 52.40% in 1985. This decrease was the direct result of using better quality control, which cut down on the amount of breakage during production. It is anticipated that this effort can be continued in 1986.

Operating Expenses of $145,000 increased slightly as a percent of sales in 1985.

Profit After Taxes of $45,000 increased by $61,000 in 1985. This dramatic turn-around was the result of increased marketing and better quality control. Everyone in the company understands the importance of these two areas.

Other Expenses of $36,000 consist primarily of interest.

Working Capital of $19,000 improved significantly in 1985. The current ratio of 1.15 shows the need for the short term operating line that is requested in this application.

Debt to Worth Ratio of 2.94 decreased substantially from 9.21 the previous year. It is realized that the present ratio is still somewhat high.

8. Comments Regarding Forecast:

An income statement forecast for 1986 is attached. The following comments illustrate how the forecast was prepared:

1. Sales are projected to increase by 40% in 1986 as compared to the 82% increase in 1985. A 40% sales increase is substantial. This increase is realistic because the marketing, so effective in 1985, will continue to be used in 1986. This marketing effort was not started until the second quarter of 1985. Most of the increased sales for 1985 occurred in the third and fourth quarters, after the new marketing program was in place.

2. Cost of goods sold is expected to be 53% of sales. In 1985 it was 52.4% of sales.

3. Operating expenses will remain at 29% of sales. This is conservative, because many of the operating expenses are fixed and, therefore, will not increase as the sales level increases.

4. Other expenses will increase slightly to 7.5% of sales.

5. Profit before taxes is forecast to be 10.5% of sales as compared to 11.4% in 1985. This category increased by $77,000 in 1985. The 1986 increase is projected to be $16,500.

(Sample)

LP-4

9. Financial Data Guarantor: The financial statement for Matt and Sarah Smith was prepared by them as of August 22, 1985.

ASSETS		LIABILITIES	
Cash	3,000	Note Payable	2,500
Real Estate	84,000	Mortgage	45,000
Autos	7,000	Total Liabilities	47,500
Personal Assets	20,000		
ABC Company	57,000	Net Worth	123,500
Total Assets	171,000	Total Liab. & NW	171,000

10. Comments Regarding Financial Data Guarantor: **Real Estate of $84,000** consists of their personal residence. The mortgage is with Uptown Bank. The monthly payments are $265, plus property taxes.

11. History and Operations: ABC Company, a corporation, was formed in 1981 by Matt and Sarah Smith. The company manufacturers insulated glass for residential and commercial buildings. This insulating process consists of gluing two pieces of glass together with an air space between the glass. All air is then pumped out of the space to create a vacuum.

The company sells mainly to retailers and contractors in the Willamette Valley. It has recently started selling its product in Central Oregon and on the Coast.

The severe cycles of the building industry do not affect the company as much as might be expected, because its product is used in remodeling, as well as in new construction. Remodeling and new construction tend to be on opposite cycles, which smoothes out the company's sales.

The company is located in a leased warehouse in the western part of the town. There are 9,000 square feet for production and storage, and 1,000 square feet for offices.

There are six employees, in addition to Matt and Sarah Smith. The Smiths own 100 percent of the company.

Matt Smith, age 35, is primarily responsible for sales and production. He has worked in the window glass industry all of his adult life.

Sarah Smith, age 32, is primarily responsible for the office management and financial planning. She is a graduate of the University of Oregon, with a degree in Business Administration. She taught business in high school for four years before the company was formed.

(Sample)

LP-5

12. Conclusion: The loans requested are needed for company expansion. The growth experienced by the company has greatly improved the profitability, but it has strained the working capital. (See application #1.) The truck, financed by application #2, is needed to compete more effectively in Central Oregon and on the Coast.

The company experienced a significant improvement in profits in 1985. The improvement is expected to continue because of the new marketing program and the quality control system. The owners and the employees are dedicated to making ABC Company a major factor in the Oregon insulated glass industry.

(Sample)

Balance Sheet

ABC Company

Assets	12-31-83	% Asset	12-31-84	% Asset	12-31-85	% Asset
Cash	10,000	7.91%	(5,500)	-4.49%	13,000	5.79%
Accounts Receivable	35,000	27.67%	39,000	31.84%	83,000	36.97%
Notes Receivable	10,000	7.91%	0	0.00%	0	0.00%
Inventory	22,000	17.39%	26,000	21.22%	46,000	20.49%
Prepaid Expense	5,000	3.95%	6,000	4.90%	7,000	3.12%
Total Current Assets	82,000	64.82%	65,500	53.47%	149,000	66.37%
Fixed Assets						
Real Estate	0	0.00%	0	0.00%	27,000	12.03%
Machinery	42,000	33.20%	48,000	39.18%	44,000	19.60%
Reserve for Depreciation	(9,000)	-7.11%	(12,000)	-9.80%	(16,000)	-7.13%
Notes Receivable	8,000	6.32%	18,000	14.69%	18,000	8.02%
Goodwill	3,500	2.77%	3,000	2.45%	2,500	1.11%
Total Fixed Assets	44,500	35.18%	57,000	46.53%	75,500	33.63%
Total Assets	126,500	100.00%	122,500	100.00%	224,500	100.00%
Liabilities						
Notes Payable	15,000	11.86%	16,000	13.06%	22,000	9.80%
Current Portion Long Term Debt	9,000	7.11%	10,000	8.16%	12,000	53.5%
Accounts Payable	30,000	23.72%	41,000	33.47%	68,000	30.29%
Taxes	0	0.00%	0	0.00%	12,000	5.35%
Miscellaneous Accruals	7,000	5.53%	11,000	8.98%	16,000	7.13%
Due Officers	6,000	4.74%	0	0.00%	0	0.00%
Total Current Liabilities	67,000	52.96%	78,000	63.67%	130,000	57.91%
Long Term Portion Debt	31,500	24.90%	32,500	26.53%	37,500	16.70%
Total Liabilities	98,500	77.87%	110,500	90.20%	167,500	74.61%
Capital						
Capital Stock	2,000	1.58%	2,000	1.63%	2,000	0.89%
Retained Earnings	26,000	20.55%	10,000	8.16%	55,000	24.50%
Total Capital	28,000	22.13%	12,000	9.80%	57,000	25.39%
Total Capital & Liabilities	126,500	100.00%	122,500	100.00%	224,500	100.00%

(Sample)

Income Statement

ABC Company	12-31-83	% Sales	12-31-84	% Sales	12-31-85	% Sales
Net Sales	250,000	100.00%	275,000	100.00%	500,000	100.00%
Cost of Goods Sold	125,000	50.00%	189,000	68.73%	262,000	52.40%
Gross Margin	125,000	50.00%	86,000	31.27%	238,000	47.60%
Operating Expenses	65,000	26.00%	79,000	28.73%	145,000	29.00%
Operating Profit	60,000	24.00%	7,000	2.55%	93,000	18.60%
Other Expenses	22,000	8.80%	27,000	9.82%	36,000	7.20%
Profit Before Taxes	38,000	15.20%	(20,000)	-7.27%	57,000	11.40%
Taxes	8,000	3.20%	(4,000)	-1.45%	12,000	2.40%
Profit After Taxes	30,000	12.00%	(16,000)	-5.82%	45,000	9.00%

(Sample)

Financial Analysis

ABC Company	Analysis 12-31-83	Analysis 12-31-84	Analysis 12-31-85
Working Capital	15,000	(12,500)	19,000
Current Ratio	1.22	0.84	1.15
Sales/Receivables Ratio	7.14	7.05	6.02
Days Receivable*	51.10	51.76	60.59
COGS/Inventory Ratio**	5.68	7.27	5.70
Days Inventory***	64.24	50.21	64.08
Debt/Worth	3.52	9.21	2.94

* The number of days that it takes to collect the accounts receivable
** The cost of goods sold/inventory ratio
*** The number of days that it takes to sell the inventory

(Sample)

1986 Quarterly Income Statement

ABC Company	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	Percent of Sales
Sales	150,000	150,000	200,000	200,000	700,000	100.00%
Cost of Goods Sold	79,500	79,500	106,000	106,000	371,000	53.00%
Gross Margin	70,500	70,500	94,000	94,000	329,000	47.00%
Operating Expenses	43,500	43,500	58,000	58,000	203,000	29.00%
Operating Profit	27,000	27,000	36,000	36,000	126,000	18.00%
Other Expenses	11,250	11,250	15,000	15,000	52,500	7.50%
Profit Before Taxes	15,750	15,750	21,000	21,000	73,500	10.50%
Taxes					14,500	2.07%
Profit After Taxes					59,000	8.43%

Workbook Loan Proposal

Application

In this section you describe the loan or loans that you are requesting. Number each loan request. The number used will refer to that loan in all other sections. The application should include:

1. The amount of money requested.

2. The type of loan (short term or long term).

3. The maturity of the loan or line of credit.

4. If the loan is secured or unsecured.

Guarantee

Owners must always be prepared to guarantee the debts of their company. This means that you, as a small business owner, will personally be liable for the debt if the company is unable or unwilling to pay the obligation. Don't try to avoid this condition. If you lack confidence in your company, why should anyone else lend money to it?

Purpose

Describe briefly what the company will do with the money. Don't go into great length. A detailed description can be made later.

Application:

Guarantee:

Purpose:

Repayment

Explain how the company will repay the loan. Short term loans are normally paid from conversion of assets, long term loans from income and depreciation. The following are sources of repayment:

Short Term

1. From sale of inventory.

2. From collection of accounts receivable.

3. From the immediate sale of specific fixed assets.

4. From an outside capital injection occurring in the near future.

Long Term

1. From business income.

2. From depreciation or other non-cash expenditures.

3. From an outside capital injection, which can be relied upon over a longer period of time.

4. From the sale of specific fixed assets over a longer period of time.

Source numbers 1 and 2 in both the short term and long term section are considered to be the best.

If you are requesting a long term loan, provide a breakdown of income, depreciation, present debt, new debt, and margin similar to that shown in the sample loan proposal. This will show the company's ability to repay the debt.

Repayment:

The repayment format that should be used for long term debt repayment is:

Description	(Year)	(Year)	(Year)	Estimated (Year)
Income				
Depreciation				
Available to Service Debt				
C/P Debt*				
Margin				
Annual Payment New Debt				
New Margin				

*Current Portion Debt

Collateral

Describe in detail the collateral that will be offered to secure the loans, and substantiate its value. In general, current assets should be offered as collateral for short term debt, fixed assets to secure long term debt. The lending institution will look at the collateral from the standpoint of liquidation. Offer sufficient collateral to secure the loan. The more detail and substantiation of value you can offer, the better the loan request. However, avoid over-pledging of collateral. Some assets should be saved for future use.

Collateral:

Financial Data

The loan proposal should identify who prepared the financial information being reviewed. It is important for the lending institution to receive this information. A spread sheet format, similar to the one in the sample loan proposal, would be helpful. If you do not have the skill to prepare the financial spread sheets, obtain the services of an accountant or contact your local small business development center.

Comments Regarding Financial Data

All lending institutions include this type of information in their loan reports. By including it in your loan proposal, you demonstrate your skill in financial matters and strengthen the proposal. This is, however, an optional section. But you should eventually develop the skills to complete it.

The comments section is designed to describe the significant aspects of your company's financial data. Lending institutions look for trends, as well as the current situation. Comment specifically on any asset that is being used as collateral.

This workbook will use the subsections discussed in the sample loan proposal's "Comments Regarding Financial Data." When you complete this section for your own loan proposal, select only those portions pertaining directly to your company.

Financial Data:

Comments Regarding Financial Data:

Accounts Receivable

If receivables are offered as collateral, discuss the current condition (aging) of the receivables, the change that has occurred since the previous year, and what is being done to correct any negative trends. To determine how many days it takes to turn your receivables, use the following formula:

1. Divide annual credit sales by total accounts receivable.

2. Divide 365 by the answer to #1.

This shows how quickly the company collects its receivables.

Inventory

Discuss inventory if it is offered as collateral. Use the following formula to determine how often inventory turns:

1. Divide the annual cost of goods sold by the total inventory.

2. Divide 365 by the answer to #1.

If your inventory turns rapidly, there is probably very little unmarketable inventory. Therefore, the inventory value shown on the financial statement is more likely to be realistic.

Real Estate

Include information, such as appraisals or property tax assessments, to illustrate the current value of the real estate.

Accounts Receivable:

Inventory:

Real Estate:

Notes Receivable

It is important to describe these because banks will question their value. Often notes receivable are uncollectible accounts receivable or cash lent to related parties.

Notes Payable

The terms of these obligations are essential for a proper analysis of long term cash flow.

Accounts Payable

Companies often use accounts payable as a source of financing. Lending institutions want to know what the trend of a company's payables is and how payables relate to sales. Any past-due problem should be discussed in this section.

Notes Receivable:

Notes Payable:

Accounts Payable:

Long Term Debt

The list of long term debt should include all of the items shown on the adjacent sheet.

Capital

Capital is critical to lenders as the secondary source of repayment if the primary source fails. Most young, growing companies are undercapitalized and unable to obtain long term financing.

Long Term Debt:

Lender	Amount	Collateral

Capital:

Beginning Capital as of _____ _____

Plus (any additions):

Net Income _____

Contributions _____

Less (any subtractions):

Net Loss _____

Withdrawals _____

Ending Capital as of _____ _____

Sales

Describe and explain sales trends, and what you will do to modify them. Make sure your forecast is reasonable, achievable, and defendable. State all assumptions on which your forecast is based.

Cost of Goods Sold

A small percentage of change in this category can have a profound effect on profits. Describe and explain current and expected trends.

Operating Expenses

Describe the larger items and explain any notable changes.

Sales:

Cost of Goods Sold:

Operating Expenses:

Profit After Taxes

Profits pay back long term loans and effect short term repayment capacity. Describe current status and trends, and explain and justify profit projections.

Working Capital

Working capital is obtained by subtracting current liabilities from current assets. If the result is positive, you have more assets that will convert to cash over the next 12 months than you have liabilities that must be paid during the same period. The current ratio puts this information into ratio form. The current ratio is obtained by dividing current liabilities into current assets.

Debt to Worth Ratio

This ratio shows a lending institution how much debt a company has for every dollar it has in capital (worth). Divide capital into total liabilities to determine the debt to worth ratio. The smaller the resulting number, the easier to secure the loan.

Profit After Taxes:

Working Capital:

Debt to Worth Ratio:

Comments Regarding Forecast

Because the lending institution looks to future profits for repayment of a loan, a company borrowing long term money should make an income forecast. Bankers, however, are skeptical about such forecasts, because most tend to be far too optimistic. Therefore, to assuage the banker's pessimism, make realistic forecasts. This will also serve to re-enforce in your mind that the loan can be repaid. (Remember, when you guarantee the debt, you have "bet the farm.") Comments regarding the forecast should substantiate and clearly illustrate a realistic, achievable, and conservative forecast. It is also important to realize when going to the bank for the next loan that this year's forecast will be compared with next year's actual results.

Sales

Generally, the most important aspect of the forecast is sales. Be sure your sales goals are attainable. A forecast that shows a large change from previous years' sales will not be believed. The sample loan proposal shows a sales increase of 40 percent. This stretches credibility, even when it is compared to the previous year's increase of 82 percent, because it is hard for companies to maintain such growth as they become larger. Supporting information, such as purchase orders and contracts, lend credence to a sales forecast.

Comments Regarding Forecast:

Sales:

Cost of Goods Sold

As mentioned above, a small percentage of change can have a large effect on profits. Carefully examine and thoroughly defend any projected change in cost of goods sold expressed as a percentage of sales.

Operating Expenses

Although the example shows one entry, an actual forecast should list every expense category that falls within this section. This can be done as a part of the forecast or as a separate attachment.

Other Expenses

These tend to stay fairly constant unless there is a specific change in circumstances.

Cost of Goods Sold:

Operating Expenses:

Other Expenses:

50

Profit Before Taxes

Although every section of your forecast appears realistic, the profit that results may not. Most bankers have seen forecasts in which a company, having made only a small profit for years, suddenly forecasts a large profit. Bankers are no more inclined to believe fairy tales than any other group of people. So, what do you do? Revise the forecast. Bring it back to a more realistic level.

Taxes

Estimate the amount of taxes you will pay on the income projected

The forecast is such a critical part of your loan proposal that you should examine it once more to be sure you are reasonable in your expectations.

Profit Before Taxes:

Taxes:

Financial Data Guarantor

Each guarantor should complete a *personal* financial statement.

Financial Data Guarantor: _____

The Financial Statement for _____ was prepared as of

_____.

Assets		**Liabilities**	
Description	Amount	Description	Amount
		Total Liabilities	
		Net Worth	
Total Assets		Total Liabilities & Net Worth	

Comments Regarding Financial Data Guarantor

A separate comment should be made for any asset or liability that requires further explanation.

Comments Regarding Financial Data Guarantor:

History and Operations

Provide an overview of the company and the people. It should not be over a page long and it should include the following material:

1. The complete name of the company.
2. The form of organization (corporation, partnership, etc.).
3. Date of company formation.
4. Product or service provided.
5. Methods of conducting business.
6. The company's market area.
7. Location of the business.
8. Name of the owners and key employees.
9. Owners' experience.
10. Other information that would increase a person's knowledge of the company.

History and Operations:

Conclusion

The conclusion should be a short review of why the money is needed and how the company will benefit from the money. Sometimes the review can include a discussion of why the loan is a safe one for the lending institution to make. Don't forget to include the necessary attachments. (See sample.)

Conclusion:

Chapter V
Making the Loan Presentation

Maintaining the proper attitudes, preparing a good loan proposal, and locating the right source of funding are futile if you are not able to "sell" your loan proposal to the lender. Many companies develop sophisticated methods for marketing their products and attracting new clients, but fail to use the same skills in making a loan presentation. If loans are important to the success of your company, it doesn't make sense to jeopardize them with a poor verbal presentation.

When you make a loan presentation, you are selling two things to the bank: The company's ability to pay back the loan, and management's ability to properly run the company, thereby ensuring repayment.

A well-written loan proposal is the first step toward getting your loan. The second is an effective verbal presentation. How you project yourself and your company's need to the lender is another important demonstration of your management ability.

There are four aspects of a verbal loan presentation:

1. Determining who will be involved in the presentation.
2. Finding the appropriate lending institution and loan officer to receive the presentation.
3. Rehearsing the presentation.
4. Making the presentation.

Determining Who Will Make the Presentation

There is a fine line between overwhelming a banker with people and failing to include the right people in the presentation. All key personnel should be included. (If that is more than five, perhaps you should look at your organization chart.) Once you have decided **who**, you must then decide **how much** and to what extent each participant is involved. The general rule is: Contribute only what clearly enhances the presentation. If someone has nothing constructive to offer, don't include him. Don't worry about a fine production supervisor who is not a skilled communicator. That person has some verbal skills in order to oversee the production staff effectively and, therefore, can be taught to make a good impression on the banker. Make sure that participants discuss their areas of expertise. A banker is not looking for highly polished promoters, but a group of knowledgeable people who can successfully run a company and pay back a loan.

Finding the Appropriate Lending Institution and Loan Officer

We have already discussed the various types of lending institutions. Now you must find which lending institution is the right one for you and your company. To determine this, answer the following questions about a particular lending institution:

1. What type of loans do they make?
2. With what type of companies are they most familiar?
3. How large are they?
4. What are their legal and local lending limits?
5. How many branches do they have and where are they located?
6. What is their attitude toward small businesses?
7. What is their attitude toward lending into the local economy?
8. If a small bank, who is on its board of directors?

One of the best ways to acquire information about a possible lender is from the institution's promotional material. Another good way is to simply ask someone at the institution. While asking for information, make sure you don't slip in a hidden or disguised loan request, as discussed earlier. It wastes time better spent in making a good, quick first impression. Hypothetical loan requests can backfire producing negative results at a subsequent actual loan meeting.

The right loan officer is as important as the right institution. The following items are important considerations in selecting a loan officer:

1. The loan officer will be your company's representative within the bank, and will attempt to sell your company and your loan requests to the loan review committee. That is why it is so important to give the loan officer all the information about your company. In a sense, he is your advocate in the bank.

2. The loan officer should have a sincere interest in you, your company, and your industry.

3. The loan officer should normally handle accounts your size.

4. The loan officer should be someone with whom you relate well.

If you feel that your loan officer is not right, or if you have been assigned an officer by the lending institution, don't hesitate to ask for a different officer. If the lender won't comply with your request, find another lending institution. Remember, the loan officer is your representative, and you deserve the right one.

Preparation and Rehearsal

Many owners who would never consider making a sales call without preparing, walk into a lending institution with no written proposal and no plan of discussion. If you are not serious enough about the loan presentation to prepare it, why should a banker take you seriously enough to grant you a loan? If the loan you are requesting is important to the future success of your company, it is worth the time and trouble to rehearse. First, prepare a written proposal and have it critiqued by your CPA or your local small business development center counselor. To rehearse your presentation, stand in front of a mirror or give the presentation to a nonthreatening audience, such as your family or a close associate.

You should outline what each member of your presenting team is going to say, and when and how you are going to employ any supporting materials, including the written presentation.

As with other sales situations, the first two minutes of a presentation often determine the results. Create the proper impression from the first moment you enter the lending institution. Gain the loan officer's attention and understanding immediately. The key to a successful presentation is to prepare and rehearse.

Making the Presentation

Now is the time to set up an appointment with the loan officer, round up your presenting team, and make the presentation. There are many ways to make a presentation, but the following is one of the best:

1. Pick one person who will be the general spokesperson.

2. Take all supporting materials, including your loan proposal.

3. Introduce all of the presenting team and describe what each does for the company.

4. Describe the loan request in general terms and tell why the company needs the money.

5. Distribute the loan proposal and go over each section. Make sure that each member of the presenting team speaks to a part of the proposal.

6. Distribute any supporting information, such as financial statements.

7. Ask if the lender has any questions not answered by the presentation.

8. Agree to provide the lender with any other information that he might need to make the loan decision.

9. Ask the lender when you can expect to receive an answer to your request.

Most loan presentations do not go exactly as planned. The loan officer may have a different agenda for making his decision. Don't worry about that. Just be sure to cover all of your points before you leave. This is your chance to convince the lending institution that you should have the financing tool that you need for your company's success.

One final rule: Never become *angry*. Normally, the loan officer is only trying to obtain the information he needs to make a reasonable decision. If you lose your temper during the presentation, you only make yourself look bad. After all, grace under pressure is a quality readily noticed and admired by all, even bankers.

Chapter VI
Conclusion

There is a logical sequence of events leading up to a successful loan application. First, understand how you perceive money and how a loan officer views a loan request. Second, prepare a written loan proposal clearly describing the loan, the company, and the management. Third, determine which type of lending institution is most suited to your particular needs. Fourth, choose the specific lending institution and loan officer most likely to help your company. Fifth, decide who should make the verbal presentation and then rehearse.

Always keep in mind that you are selling the lending institution on your company's ability to repay the loan and on management's ability to run the company.

The techniques necessary to obtain a loan have been laid out for you. Study them, practice, and don't be discouraged if you are not always successful. Remember, lending institutions can take only a *reasonable* risk. If your company has so many shortcomings that it cannot get financing, work to correct the weaknesses. Such improvement will both strengthen your company and greatly enhance your chances of obtaining a loan at some future time.

Maybe your business is another Apple Computer, McDonald's, or Ford Motor Company just waiting to happen. With determination and mastery of the loan request and presentation techniques, you could be the one to make it happen.

Oregon Small Business Development Center Network

Blue Mountain Community College
Small Business Development Center
37 S.E. Dorian
Pendleton, OR 97801
(503) 276-6233

Central Oregon Community College
Small Business Development Center
2600 N.W. College Way
Bend, OR 97701
(503) 382-6112, ext. 237

Chemeketa Community College
Small Business Development Center
365 Ferry St. S.E.
Salem, OR 97301
(503) 399-5181

Clackamas Community College
Small Business Development Center
108 8th St.
Oregon City, OR 97045
(503) 656-4447

Clatsop Community College
Small Business Development Center
1240 S. Holladay
Seaside, OR 97138
(503) 738-3347

Lane Community College
Small Business Development Center
1059 Willamette St.
Eugene, OR 97401
(503) 726-2255

Newport Chamber of Commerce
Small Business Development Center
555 S.W. Coast Highway
Newport, OR 97365
(503) 265-8801

Lincoln Chamber of Commerce
Small Business Development Center
P.O. Box 787
Lincoln City, OR 97367
(503) 994-3070

Linn-Benton Community College
Small Business Development Center
6500 S.W. Pacific Blvd.
Albany, OR 97321
(503) 967-6112

Mt. Hood Community College
Small Business Development Center
26000 S.E. Stark St.
Gresham, OR 97030
(503) 667-7658

Portland Community College
Small Business Development Center
12000 S.W. 49th Ave.
Ross Island Center, B-13
Portland, OR 97219
(503) 244-6111, ext. 2562

Rogue Community College
Small Business Development Center
206 N.E. 7th
Grants Pass, OR 97526
(503) 474-0762

Southwestern Oregon Community College
Small Business Development Center
1988 Newmark St.
Coos Bay, OR 97420
(503) 888-2525, ext. 259

Tillamook Bay Community College Service District
Small Business Development Center
401 B Main St.
Tillamook, OR 97141
(503) 842-2551

Treasure Valley Community College
Small Business Development Center
173 S.W. 1st St.
Ontario, OR 97914
(503) 889-2617

Treaty Oak Community College Service District
Small Business Development Center
212 Washington
The Dalles, OR 97058
(503) 296-1173

Umpqua Community College
Small Business Development Center
744 S.E. Rose
Roseburg, OR 97470
(503) 672-2535; 672-3679

Eastern Oregon State College
Small Business Development Center
Regional Services Institute
LaGrande, OR 97850
(503) 963-1391

Oregon Institute of Technology
Small Business Development Center
Klamath Falls, OR 97601
(503) 883-7556; 883-7562

Southern Oregon State College, Ashland
Small Business Development Center
Regional Services Institute
Ashland, OR 97520
(503) 482-5838

Southern Oregon State College, Medford
Small Business Development Center
229 N. Bartlett
Medford, OR 97501
(503) 772-3478

Portland State University
Small Business International Trade Program
1912 S.W. 6th Ave., Room 260
Portland, OR 97201
(503) 229-3246

OSBDC Network Office
1059 Willamette St.
Eugene, OR 97401
(503) 726-2250